

SOME ECONOMIC ASPECTS OF PUBLIC RELATIONS IN AMERICAN BUSINESS

BY

C. NUGENT WEDDING

B.S., University of Illinois, 1938

M.S., University of Illinois, 1942

AN ABSTRACT OF A THESIS

SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ECONOMICS
IN THE GRADUATE COLLEGE OF THE
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INTRODUCTION

The general purpose of the present study has been to survey public-relations activities in American business and to try to criticize and evaluate these activities in the light of their possible contributions to our socio-economic well-being.

PUBLIC RELATIONS DEFINED

There are many concepts of public relations; as one public relations director put it, "Public relations means all things to all people."

In this study public relations is defined as a function of business management involving two general phases. The first of these deals with the responsibilities of business management in connection with the formulation of company policies. It is a philosophy of management based upon the concept of enlightened self-interest of business. It believes that the profit motive in business is well justified because of its effect as a powerful human incentive; it believes further, however, that, "He who serves best profits most" and that no firm or industry can operate successfully and profitably over a long period of years if it ignores the parallelism of interest which exists between business and society. Thus, the first step in this broad conception of public relations involves the determination of firm policies which are in line with the best interests of the general public.

The second phase of public relations is concerned with an explanation and an interpretation of these company policies and decisions to the public by all available media. The customary tools of this educational campaign are propaganda, publicity, advertising and personal selling activities.

RESEARCH METHOD USED

The data on public relations used in this study were gathered by the writer through personal conferences with men actively engaged in public relations work. There were 93 of these personal interviews; 85 of them held with men responsible for the public relations programs of individual business firms and 8 with independent public relations counselors. It was necessary to secure primary data from the field for this study because of the lack of such material in existing secondary sources; this method of research was used in preference to others available because it seemed to afford the best opportunity for collecting the type of authoritative, factual information essential in attempting to analyze and study this field. The results of this personal survey are presented in detail in Chapter III of the original thesis manuscript.

AN ECONOMIC EVALUATION OF PUBLIC RELATIONS ACTIVITIES

Public-relations activities of business firms have been criticized by some observers as being economically unjustified. These critics have characterized them as wasteful, as being unproductive and unjustified from the standpoint of the economy as a whole, although their value from the viewpoint of the single firm has been admitted.

Public-relations activities can be justified if they contribute to a more efficient functioning of the economy and to improving the standard of living. They are economically justifiable if they aid the productive forces in increasing the number of units of consumable goods and services possessing want satisfying qualities, or in increasing the utility of each individual unit produced. There are various ways in which public relations may aid in the realization of these possibilities.

An increase in productive capacity and output arises principally from four sources:

1. Through increased investment in factories and productive machines.

2. Through improved organization and management techniques.
3. Through technological development.
4. Through the discovery and use of new resources.

It is in connection with the first two of these that public relations may make a contribution. In reference to point number 1, some firms have set forth an increased sale of company stock to the public, and a consequent plant, company, and employment expansion, as one of the objectives of their public relations program. These companies look for aid from public relations in the sale of stock through an increase in company goodwill, prestige, and general reputation. Executives of these companies believe that public relations has contributed to the realization of these objectives; they believe that it has played a material part in developing a willingness on the part of the public to invest in these expansionary plans of individual firms. It may be difficult for them to get positive proof of the extent of this contribution. We should, however, think in terms of aggregate investment and enlargement of productive capacity if a contribution to increased productive facilities and employment is to be claimed. Public relations activities could make a contribution to this increased aggregate investment only if the marginal propensity of investors to invest could be raised materially as a result of these public relations activities.

The willingness of business leaders to invest in and expand industry is dependent to a great extent upon the possibilities of a profitable use being made of the funds invested; this, among other things, depends upon the possibilities of selling and marketing the goods produced as a result of the expansion. This, in turn, leads directly to a consideration of the possible effects of public relations upon the consumers' marginal desire to consume. Part of the public relations effort in American business is directed toward a sales objective, i.e., selling the company and the policies of the company as well as the product or service produced. Too little is known of the

influence of the indirect factors, such as company goodwill, prestige, and reputation on consumer buying habits. We do know, however, that in many cases these factors play a dominant part in the consumer's decisions concerning what and how much to purchase. We are dependent upon and must wait for further psychological studies of human motivation and reaction to sales and advertising efforts before much in the way of positive claims can be made for the influence which public relations may have upon marginal purchases. American business has been successful in broadening and exciting imaginations and has aided in stimulating and spurring on the "insatiable" desires of American consumers. Public relations has been a part of this sales and advertising force. This combined sales effort has contributed to increased consumption, greater effort in production, and a generally higher living standard. Desires and demands of human beings of all races and nationalities and their propensity to consume are not to be looked upon as an innate, standard factor, dependent solely upon income and wealth, nor is their corresponding willingness to labor to satisfy these desires uniform.

As Alfred Marshall in his *Principles of Economics* puts it:

"No universal rule can be laid down; but experience seems to show that the more ignorant and phlegmatic of races and of individuals — will stay at their work a shorter time, and will exert themselves less while at it, if the rate of pay rises so as to give them their accustomed enjoyments in return for less work than before. But those whose mental horizon is wider, and who have more firmness and elasticity of character, will work the harder and the longer the higher the rate of pay which is open to them."¹

It is in the widening of this mental horizon, which Marshall mentions, that public relations, advertising, and selling may play their contributing parts. On the same point, Neil H.

1. Alfred Marshall, *Principles of Economics*, 8th edition. New York: The Macmillan Company, 1920, p. 528.

Borden, in his *The Economic Effects of Advertising* quotes from F. C. Mills, *Economic Tendencies in the United States*:

"Traders among primitive people have always found it essential to carry to them not advanced merchandise but simple things which fit in their existing wants. German traders in backward regions of the world are said to have complained of the *verdamnte Bedürfnislosigkeit* (damned wantlessness) of the natives for the products they had to offer."²

Public relations, consequently, as a business activity may be justified to an extent because of these aids to the increased propensity to consume and invest and the resulting contribution to increased employment, national income and advanced living standards. It has not, however, been possible in this research to place an objective measurement on the extent of this contribution.³

In connection with point 2 above, an increase in productive capacity and output may arise, "Through improved organization and management techniques." The function of business management is to make the most efficient possible use of the factors of production; to take the agents of labor, natural resources, and capital and weld them into a well-coordinated, smoothly running machine for the production of consumable goods and services. Our present day business management, charged with this operation of our productive system, is beset with innumerable problems. Many of them (for example, the allocation of agents of production, and the determination of types of products, rates of output, plant location, and expansion) have received a great deal of study and attention. In the realm of human relationships, those problems involving the ever-widening gulf of misunderstanding between business management and the public have not received their proper share of attention and analysis.

2. Neil H. Borden, *The Economic Effects of Advertising*. Chicago: Richard D. Irwin, 1942, p. 692.

3. Since this is to be considered a pioneering study in the economic aspects of public relations, this may suggest a suitable subject for further research in this field.

There are opportunities here, through public relations, for increasing cooperation and improving the understanding and appreciation which our population groups should have for the part played in our economy by the other segments of the population. Management has this social and educational task to perform as part of the overall management function. It would not be possible to make the most efficient use of the various factors of production without it; the interests of management parallel those of the rest of the economy; employment and purchasing power must be kept up if markets are to be provided to absorb the goods and services produced and if a satisfactory return on capital is to be earned. This responsibility toward the rest of society does not in any way conflict with the operation of the profit motive in business; on the contrary, it is through a fulfillment of the social responsibilities that business can best maximize this desired profit. As General Robert Wood, Chairman of the Board of Sears, Roebuck and Company put it in one of his annual reports:

“If the things they are doing — are for the social good, as I believe many are, business must benefit in the end.”⁴

Our specialized, round-about, mass-production, industrial system has been responsible for a high rate of productivity. If, however, we are to receive the highest productivity from this system, there must be a higher degree of cooperation between the various economic groups than has yet been attained. Under this system one cannot live alone; each is dependent upon the others. Production is the result of a cooperation and combination of the efforts of labor and capital under the supervision of management in the utilization of natural resources; this cooperation will be more effective if it is based upon a foundation of mutual trust and understanding. A clearer conception of the part played by other agents of production can help in bringing about a better understanding and appreciation. Mutual aid and not class struggle should be the goal. The owners of capital funds depend upon manage-

4. General Robert Wood; *Fortune Magazine*. May 1938, p. 66.

ment and labor to utilize this capital; labor depends upon capital investment and managerial skill for jobs. While the amount of this investment per worker in our modern industry varies, \$6,000.00 is often cited as a typical figure; without this investment in tools, equipment, and working capital, workers face unemployment or lower wages.

Accompanying this group interdependence has come a separation between labor, management, and the owners of capital. With absentee ownership of hundreds of thousands of stockholders in large companies scattered all over the country, and hundreds of thousands of employees supervised by professional managers, this separation becomes both geographical and one based upon lack of sympathy and understanding. In a more simple economy when businesses were small and the owner of the business was also the manager supervising a handful of employees and meeting the customers in person, there were opportunities for fewer misunderstandings and fewer gulfs to form between these groups. The opportunities were also present for correcting more quickly the misunderstandings and misimpressions that did arise. With the advent of large scale business, absentee ownership, and professional management, new methods were needed. The problem in our complex economy becomes one of communication of ideas and facts. This will help bridge the gap between labor capital, and management as must be done if we are to achieve the higher degree of cooperation which will lead directly to a more efficient operation of the economic system and a higher standard of living.

Public relations is a philosophy of management which concerns itself with these problems; it considers the parallelism of interest which exists between all groups in our economy, develops corporate policies in line with this philosophy, and then interprets and explains them to the public. In conjunction with management's task of coordinating the factors of production, it seems that it should be part of management's responsibility to take the lead in initiating such educational efforts as may be necessary to encourage an appreciation for

the part played in the economy by other segments of the population, to raise morale and cooperation among workers, and to provide adequate investment.

The ignorance of our public on matters pertaining to economics and to the operations of the economic system is a cause of much misunderstanding. The public should know more about our economic system and its operations; management should assume part of the responsibility for this type of education. The public should be better informed about the function of prices and of money in our system; they should know more about profits, rates of profit, dividends, and the relationship of wages to these items. They should be better informed about the alternative economic systems which are being proposed; they should know the features and the characteristics of each, the advantages and the disadvantages of each; they should also know the relationship between the type of economic system and the government and political system. They should be educated concerning the cost to the economy of strikes or slow-downs, for ill-will or bad feeling on the part of the working force very directly cuts efficiency and output. The millions of man-days lost through such labor difficulties cost hundreds of millions of dollars in wages, lead to a diminished purchasing power for consumers, and may act to discourage new capital investment.

Public relations in the form of education on basic economic concepts should tend to help overcome many difficulties. By an improved understanding and by developing an appreciation for the contribution to production of other segments of the economy, a greater feeling of harmony and a higher morale and productivity should result.

As a part of its obligation to make use of the agents of production in the most effective manner, management should make every effort to forestall unemployment and prevent depressions; such repercussions provide excellent ammunition for those who desire to modify or eliminate our present type of economic system. (There is room for doubt concerning the

ability of our economic system to withstand another serious depression.) If, as seems apparent, our economic system has the highest productivity and offers the greatest incentives to increased productivity, management must make every effort to maintain it. If it does not do this, management is not completely fulfilling its obligations in regard to the utilization of productive agents. In connection with these duties, management should be more vocal in explaining its stewardship to the public. This should help to bridge the gulf between the various segments of the economy, and these explanations may also be of aid in improving the understanding by the public of the difficulties and complexities of management's job in the economy. The public holds business management responsible to a great extent for the ills and weaknesses of the system.

"Surveys by the National Association of Manufacturers disclosed that in the depths of the depression 80 out of 100 people believed that industry had failed in its social and economic responsibilities.

"In the confusion of fears and resentments, they seem to have concluded that short-sighted and selfish business management was chiefly responsible for their misfortune. This opinion was shared by men and women in all walks of life, including college and professional groups."⁵

The material collected in the present survey illustrates that some large corporations are accepting these additional responsibilities as a part of their managerial task. The expressed objectives of their public-relations programs indicate that about 25% of them are doing this. Forty one companies, for example, gave as one of their objectives, "To have the company and its policies understood by the public."

Seventeen companies wanted to, "Develop a better understanding between management and employees as an aid to

5. Editorial **Factory Management and Maintenance** Vol. 96 No. 10, Quoted in **Industrial Management**, Anderson, Mandeville & Anderson. New York: Ronald Press, 1942 p. 4.

better production.”

Four companies were attempting to, “Explain the economic system and its operations.”

Four of them were, “Interpreting the company to the public and the public to company management.”

Fifteen had as one stated objective, “ To preserve the free enterprise system.”

Six were hoping to, “Teach employees and the public basic economic principles.”

Thus, considering the opportunities for contributions to sales efforts, capital investment, employment, and the promotion of understanding between segments of our economy, it seems that we should answer our original question in the affirmative. It seems that, within the framework of a dynamic, capitalistic system, public-relations activities generally help the successful functioning of the economy and the advance toward increased living standards. Public relations seems to be well justified from an economic point of view as long as we look upon public relations as the philosophy of management which shoulders its share of social responsibility, considers the parallelism of interest which exists between all groups in our economy, develops corporate policies in line with this philosophy, and then interprets and explains them to the public. A free, democratic society must be made up of informed, enlightened people. The whole course of our economic and political systems depends upon our ability to educate and advance this public. Business management can and should make a contribution here through public relations.

VITA

Nugent Wedding was born February 4, 1912 in Grafton, Illinois. He attended elementary school in Grafton and high school in both Grafton and Alton, Illinois; he was graduated from the latter institution in 1930.

He spent the year 1930-1931 as a student at the Southern Illinois Normal University at Carbondale. From 1931 to 1935 he taught in the public schools at Grafton.

From 1935 through 1938 he was a student at the University of Illinois in the College of Commerce and Business Administration and was granted the Bachelor of Science degree in 1938.

During the period 1938 to 1941 he was engaged in various business positions in chamber of commerce work and in retail store operations. In September 1941 he returned to the University of Illinois to do graduate work in economics and part time teaching as an assistant in the department of economics. He received the Master of Science degree in the summer of 1942.

He began teaching marketing and finance in September 1942 at Miami University, Oxford, Ohio. He remained in this position until February 1946 at which time he was granted a leave of absence by Miami University. He returned to the University of Illinois, took graduate work in economics and taught marketing and advertising courses in the College of Commerce.

